

Message Text

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PAGE 01 WELLIN 03366 250035Z

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ACTION EA-10

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TAGS: ECON EFIN NZ

SUBJECT: PRIME MINISTER ANNOUNCES NEW ECONOMIC MEASURES

REF: WELLINGTON 3293

BEGIN SUMMARY: PRIME MINISTER PRESENTS RELATIVELY MILD FIVE-POINT PROGRAM TO COMBAT NEW ZEALAND'S DETERIORATING ECONOMIC SITUATION. A TEMPORARY COMPULSORY STABILIZATION SAVINGS SCHEME AND PROPOSAL TO REDUCE COST-OF-LIVING INCREASE IN SALARIES AND WAGES DUE IN JANUARY WERE MOST IMPORTANT MEASURES. THERE IS GENERAL PUBLIC RELIEF ACTION WAS NOT STRONGER. FARMERS AND LABOR ARE THE TWO GROUPS REACTING MOST STRONGLY TO MEASURES. FARMERS WANT MORE SUPPORT FOR THEIR SITUATION, LABOR WANTS MORE THAN JUST LABOR TO SHARE BURDEN. LABOR'S SUPPORT IS VITAL TO THE SUCCESS OF THE GOVERNMENT'S PLAN. IF FULL PUBLIC SUPPORT NOT FORTHCOMING, OTHER MEASURES UNDOUBTEDLY WILL BE NECESSARY.

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PAGE 02 WELLIN 03366 250035Z

END SUMMARY.

1. AFTER A SEVERAL WEEKS' BUILD-UP TO PREPARE THE PUBLIC FOR NEW ECONOMIC RESTRICTIONS, ON OCTOBER 23 PRIME MINISTER ROWLING, BEFORE A SPECIALLY INVITED CROSS SECTION OF COMMUNITY LEADERS, PRESENTED A REPORT ON THE ECONOMIC SITUATION AND A FIVE POINT PROGRAM TO CURB INFLATION AND STEM THE LOSS OF FOREIGN EXCHANGE, WHILE HOPEFULLY AVOIDING UNEMPLOYMENT AND MAINTAINING SOME ECONOMIC GROWTH.

2. LEADING THE LIST OF MEASURES IS A COMPULSORY SAVINGS PLAN TO BE EFFECTED BY A NINE PERCENT INCREASE IN TAX WITHHOLDING ON ALL SALARIES, WAGES AND OTHER EARNINGS OVER DOLS 60 PER WEEK OR THE EQUIVALENT. THE PLAN WILL OPERATE FOR A FOUR MONTH PERIOD BEGINNING DECEMBER 1, 1974. THE EXTRA AMOUNT PAID BY THIS SCHEME WILL BE REFUNDED AS A CREDIT ON INCOME TAX NEXT YEAR. THE PLAN IS CALCULATED TO REMOVE DOLS 50 MILLION FROM CIRCULATION.

3. THE OTHER MAIN MEASURE IS THE REOPENING OF NEGOTIATIONS WITH UNIONS ON THE AMOUNT OF COST-OF-LIVING WAGE AND SALARY INCREASE DUE IN JANUARY. EXISTING REGULATIONS BIND THE GOVERNMENT TO AUTHORIZE WAGE AND SALARY INCREASES EQUAL TO THE ENTIRE AMOUNT OF THE COST-OF-LIVING INCREASE FOR THE SECOND HALF OF 1974 (EXPECTED TO BE 7 TO 8 PERCENT), OR NOTHING AT ALL. ALLOWING A 7 TO 8 PERCENT RISE WOULD GREATLY INCREASE INFLATIONARY PRESSURES. GRANTING NO INCREASE WOULD BE POLITICAL SUICIDE. THE PM POINTED OUT THAT THE PREVIOUS 9 TO 11-1/4 PERCENT WAGE INCREASE WAS BASED ON "CONSIDERABLE INCREASE IN PRODUCTIVITY", BUT THIS HAD BEEN CANCELLED OUT BY THE FALL IN THE TERMS OF TRADE.

4. OTHER MEASURES PRESENTED BY THE PM INCLUDE:

(A) ALLOWING THE RESERVE BANK TO MAKE INTEREST-BEARING DEPOSITS IN TRADING BANKS TO ENABLE THEM TO MAKE SUPPLEMENTARY FUNDS AVAILABLE TO MEET THE MOST URGENT NEEDS OF FARMING AND BUSINESS. THOUGH THIS WOULD EASE SOME TIGHT LIQUIDITY CAUSED BY CONTINUING DEFICITS IN THE BALANCE OF PAYMENTS, THE PM CAUTIONED THIS MOVE WAS NOT TO BE INTERPRETED AS AN EASING OF CREDIT; (B) LIMITING THE LIMITED OFFICIAL USE

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PAGE 03 WELLIN 03366 250035Z

COST FOR DEPRECIATION PURPOSES OF BUSINESS VEHICLES PURCHASED AFTER OCTOBER 22 TO DOLS 6,000; (C) INSTITUTING A SURVEY OF CURRENT NON-TAXABLE FRINGE BENEFITS TO MAKE TAX SYSTEM MORE EQUITABLE; (D) LEVYING OF A CAPITAL GAINS TAX ON CERTAIN PROFITS FROM THE SALES OF LAND HELD LESS THAN 10 YEARS.

5. ROWLING STRESSED ACTION HAD TO BE TAKEN TO RESTRAIN

CONSUMER SPENDING IN THE IMMEDIATE FUTURE. HE APPEALED TO ALL SECTORS OF THE COMMUNITY TO COOPERATE WITH THE GOVERNMENT PROGRAM. ADDING WEIGHT TO THIS APPEAL, HE MADE CLEAR THAT WITHOUT NEEDED SUPPORT THE GOVERNMENT WOULD HAVE LITTLE OPTION BUT TO TAKE OTHER ACTION SUCH AS LEVYING A NON-REFUNDABLE TAX SURCHARGE, INCREASING SALES OR INDIRECT TAXES, RAISING POSTAL, RAIL AND ELECTRICITY CHARGES, ELIMINATION OF SOME SUBSIDIES, OR FURTHER RESTRICTING IMMIGRATION.

6. COMMUNITY RESPONSE INDICATES A SENSE OF RELIEF THAT THE MEASURES WERE NOT TOUGHER, ALTHOUGH THERE HAS BEEN INEVITABLE DEFENSE OF EACH SECTOR'S INTERESTS BY THEIR RESPECTIVE SPOKESMEN. FOL PRESIDENT TOM SKINNER SAID THE FOL WOULD "COOPERATE AND CARRY ITS FAIR SHARE OF THE BURDEN BUT ONLY ITS SHARE". HOWEVER, WITH AN OBVIOUS AWARENESS TO THE EARS OF THE NZ WORKERS, HE WARNED THAT WAGE AND SALARY EARNERS SHOULD NOT BE USED AS "WHIPPING BOYS" TO CURE THE COUNTRY'S ECONOMIC ILLS.

7. REPS OF THE FARMING SECTOR EMPHASIZING NZ ECONOMIC DEPENDENCE ON FARM EXPORTS STRESSED NEED FOR ACTION TO RESTORE CONFIDENCE TO FARMERS WHO ARE CAUGHT IN A MOST SERIOUS SQUEEZE BETWEEN INCREASING COSTS AND FALLING FARM PRICES.

8. DURING A CALL BY THE AMBASSADOR ON DEPUTY PRIME MINISTER (AND MINISTER OF FINANCE) TIZARD ON OCTOBER 24, THE MINISTER SAID GOVERNMENT'S OBJECTIVE IN PRESENTING THE ECONOMIC REPORT AND ACTION TO COMMUNITY LEADERS WAS TO ALERT THE COUNTRY THE SERIOUSNESS OF THE SITUATION AND ENCOURAGE FULL COOPERATION WITHOUT GOING TOO FAR. HE SAID THE SUCCESS OF THE MEASURES DEPENDS ON THE SUPPORT LIMITED OFFICIAL USE

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PAGE 04 WELLIN 03366 250035Z

OF LABOR. THE GOVERNMENT BELIEVES THE MAIN BODY OF LABOR WILL COOPERATE BUT SOME MILITANT UNIONS MIGHT POSSIBLY MAKE TROUBLE IN THE NEGOTIATIONS TO REDUCE THE JANUARY COST-OF-LIVING INCREASE. HE OBSERVED THAT IT IS BETTER TO HAVE 100 PERCENT EMPLOYMENT WITH A SLIGHT INCREASE IN WAGES THAN 95 PERCENT EMPLOYMENT WITH A HIGHER INCREASE.

9. AMBASSADOR ALSO DISCUSSED GOVERNMENT'S NEW ECONOMIC PROGRAM ON SAME DATE WITH LEADER OF THE OPPOSITION AND FORMER FINANCE MINISTER, MR. MULDOON, WHO BELIEVES PROGRAM IS TOO LITTLE TOO LATE. MULDOON INDICATED HE DID NOT BELIEVE LABOR WOULD BE AS COOPERATIVE AS GOVERNMENT ANTICIPATES AND PREDICTS ADDITIONAL MEASURES WILL BE NECESSARY TO COPE WITH THE PROBLEM.

10. EMBASSY FORWARDING A COPY OF PRINTED BOOKLET PREPARED
UNDER TIZARD'S DIRECTION GIVING BACKGROUND, SHORT-TERM
ECONOMIC OUTLOOK AND PRESENT GOVERNMENT POLICIES.
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